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SUBJECT: IMF SHIFTS COURSE ON ST. VINCENT AIRPORT PROJECT

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Classified By: CDA D. Brent Hardt, Reason 1.4 (b)

11. (C) Following a January 30-February 12 Article IV consultation visit to St. Vincent, the International Monetary Fund (IMF) issued a report in which it termed the construction of a costly new international airport a step in the right direction for the country's tourism development. This conclusion strengthened a lukewarm blessing of the project in a 2008 IMF report, which had expressed concerns about the project's impact on the St. Vincent's indebtedness. The new report also contradicts the overwhelming body of opinion in St. Vincent's business community, which sees the project as a politically-motivated white elephant. The Gonsalves Administration was quick to boast about the IMF stamp of approval in parliament, and will undoubtedly use the new assessment to validate its continuation of the project. End Summary.

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Background: The 2008 Article IV Consultation  
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12. (C) In February 2008, the IMF Executive Board concluded an Article IV Consultation with St. Vincent and the Grenadines (SVG) that painted a generally positive economic picture of SVG, but highlighted its level of national debt as a particular concern. In this regard, the report had raised questions specifically about the government's new multi-million dollar airport project, which threatened to raise the debt further. The IMF report stated: "Directors encouraged the authorities to undertake an updated study of the financing structure, and seek additional grant and concessional financing to contain the potential impact on the country's debt position." Critics of the airport project have long warned of the cost and the danger of saddling generations of Vincentians with an insurmountable national debt. They have also decried the massive cost overruns the project has already encountered. The GOSVG, meanwhile, promised to finance the project through the sale of government-owned lands and donations and claimed there would be no significant impact on the national debt.

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New Report; New Enthusiasm  
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13. (C) Following the 2009 IMF Article IV Consultation in early February, the executive board issued a new report that offered more enthusiastic support for the airport project. The board reported that it had received excellent cooperation from both the Gonsalves administration and the opposition New Democratic Party (NDP). NDP leader Arnhim Eustace and two senior members of the opposition confirmed that they met with the IMF team for over two hours. During this meeting, they told us they had expressed their concerns over the cost of the project and the diplomatic directions that its financial

requirements were leading the nation, specifically SVG's new relations with Iran. After the meeting, Eustace said he was convinced the IMF team would not give the project a favorable review. However, he acknowledged that the IMF team also met extensively with PM Gonsalves and members of the Ministry of Finance, and that those meetings could have swayed opinions.

¶4. (C) Notwithstanding the NDP's opposition, and without reference to the lack of any other tourism sector infrastructure development to support the airport, the IMF team strengthened their support for the airport project, concluding: "The mission shared the authorities' view that the construction of a new international airport is necessary to develop the tourism industry further." Addressing the potential impact on the national debt, the IMF encouraged the GOSVG to get creative with its financing. "To avoid compromising the efforts to put debt on a downward path, there is a need for sustained fiscal consolidation, in conjunction with continued availability of concessional financing (including in-kind grants) for the airport project. The mission encouraged the authorities to continue efforts to minimize the need for bridge commercial financing in the face of tightened global and domestic credit availability in 2009, including through mobilizing more grant and concessional resources and being flexible with the construction time table, to the extent technically feasible."

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Reaction from the Opposition  
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¶5. (C) Eustace, extremely disappointed in the outcome of the visit, immediately went on the radio disagreeing with the IMF team's assessment and further emphasized this position to Poloff in a phone conversation. The normally lethargic Eustace was energized, and quickly pointed out the differences between the 2009 and the 2008 reports. Eustace voiced his suspicion that "some internal IMF politics" might be behind the IMF's backing of the airport project.

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Comment  
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¶6. (C) It is hard to support the IMF's conclusions that a new international airport on St. Vincent is the right step for the development of the country's tourism industry. Most of the country's tourism takes place in its Grenadine islands, which already have airports easily serviceable from the nearby large international hub in Barbados. The island of St. Vincent has little or no tourism industry to speak of, and the addition of a new airport will not magically create one. Its beaches are not a big draw and it has few large-scale or quality hotels of interest. Private sector contacts wryly point out that they could be faced with hundreds of airline passengers arriving daily, only to find there are no hotels on the island to house them. PM Gonsalves is already stretching his political capital with Cuba and Venezuela as he seeks more money for his pet project, and is now courting Iran (reftel). So far, though, the Iranian money is only a pledge, and there is no indication that Iranian funds have yet been allocated. Venezuelan largesse could also start to dwindle as world oil prices deflate. Despite the economic realities of the project, the IMF's curious assessment is a boon for the Gonsalves government, as it provides an implicit international stamp of approval to continue the project (and create jobs in the short-term for political gain). More broadly, the report seems to be at odds with the sort of fiscal responsibility the IMF has long championed in the region.

HARDT